15 Juan de Mariana and the Spanish scholastics[1]

One of the main contributions of Professor Murray N. Rothbard has been to show that the prehistory of the Austrian School of Economics should be sought in the works of the Spanish scholastics of what is known as the 'Siglo de Oro Español' (in English, the 'Spanish Golden Century'), which ran from the mid-sixteenth century through the seventeenth century. Rothbard first developed this thesis in 1974[2] and, more recently, in chapter 4, volume I, of his monumental *History of Economic Thought from the Austrian Perspective*, entitled 'The Late Spanish Scholastics'.[3]

However, Rothbard was not the only important Austrian economist to show the Spanish origins of the Austrian School of Economics. Friedrich Hayek himself also had the same point of view, especially after meeting Bruno Leoni, the great Italian scholar, author of the book *Freedom and the Law*.[4] Leoni met Hayek in the 1950s and was able to convince him that the intellectual roots of classical economic liberalism were of continental and Catholic origins and should be sought in Mediterranean Europe, not in Scotland.[5]

Who were these Spanish intellectual forerunners of the Austrian School of Economics? Most of them were scholastics teaching morals and theology at the University of Salamanca, a wonderful Spanish medieval city located 150 miles to the north-west of Madrid, close to the border of Spain with Portugal. These scholastics were mainly either Dominicans or Jesuits and were able to articulate the subjectivist, dynamic and libertarian tradition on which, 250 years later, Carl Menger and his followers of the Austrian School would place so much importance.[6] Perhaps the most libertarian of all the scholastics, particularly in his later works, was the Jesuit father Juan de Mariana.

Mariana was born in 1536 in the city of Talavera de la Reina, near Toledo in Spain. He appears to have been the illegitimate son of a canon of Talavera and, when he was 16, joined the Society of Jesus, which had just been created. At the age of 24, he was summoned to Rome to teach theology, then transferred to the school the Jesuits ran in Sicily and from there to the University of Paris. In 1574, he returned to Spain and lived and studied in the city of Toledo until his death in 1623, at the age of 87.

Although Father Juan de Mariana wrote many books, the first one with a libertarian content was, perhaps, the book entitled *De rege et regis institutione* ('On the king and the Royal Institution') published in 1598, in which he set forth his famous defence of tyrannicide. According to Mariana any individual citizen can justly assassinate a king who imposes taxes without the people's consent, seizes the property of individuals and squanders it, or prevents a meeting of a democratic parliament.[7] The doctrines contained in this book were apparently used to justify the assassination of the French tyrant kings Henry III and Henry IV and the book was burned in Paris by the executioner as a result of a decree issued by the Parliament of Paris on 4 July 1610.[8]

In Spain, although the authorities were not enthusiastic about it, the book was respected. In fact, all Mariana did was to take to its logical conclusion the idea that natural law is morally superior to the might of the state. This idea had previously been developed in detail by the great founder of international law, the Dominican Francisco de Vitoria (1485–1546), who began the Spanish scholastic tradition of denouncing the conquest and particularly the enslavement of the Indians by the Spaniards in the New World.

But perhaps Mariana's most important book was the work published in 1605 with the title *De monetae mutatione* ('On the alteration of money').[9] In this book, Mariana began to question whether the king or governor was the owner of the private property of his vassals or citizens and reached the clear conclusion that he was not. The author then applied his distinction between a king and a tyrant and concluded that 'the tyrant is he who tramples everything underfoot and believes everything to belong to him; the king restricts or limits his covetousness within the terms of reason and justice'.

From this, Mariana deduces that the king cannot demand tax without the people's consent, since taxes are simply an appropriation of part of the subjects' wealth. In order for such an appropriation to be legitimate, the subjects must be in agreement. Neither may the king create state monopolies, since they would simply be a disguised means of collecting taxes.

And neither may the king – this is the most important part of the book's contents – obtain fiscal revenue by lowering the metal content of coins. De Mariana realized that the reduction of the precious metal content in coins and the increase in the number of coins in circulation is simply a form of inflation (although he does not use this word, which was unknown at the time) and that inflation inevitably leads to a rise in prices because, 'if money falls from the legal value, all goods increase unavoidably, in the same proportion as the money fell, and all the accounts break down'.

Mariana describes the serious economic consequences to which the debasement and government tampering with the market value of money lead as follows:

> Only a fool would try to separate these values in such a way that the legal price should differ from the natural. Foolish, nay, wicked the ruler

> who orders that a thing the common people value, let is say, at five should be sold from ten. Men are guided in this matter by common estimation founded on considerations of the quality of things, and of their abundance or scarcity. It would be vain for a Prince to seek to undermine these principles of commerce. 'Tis best to leave them intact instead of assailing them by force to the public detriment.[10]

We should note how de Mariana refers to the fact that the 'common estimation' of men is the origin of the value of things, thus following the traditional subjectivist doctrine of the scholastics, which was initially proposed by Diego de Covarrubias y Leyva. Covarrubias was born in 1512 and died in 1577. The son of a famous architect, he became bishop of the city of Segovia and a minister of King Philip II. Thus, in 1554, he set forth better than anyone before the subjectivist theory of value, stating that 'the value of an article does not depend on its essential nature but on the subjective estimation of men, even if that estimation is foolish', illustrating his thesis with the example that 'in the Indies wheat is dearer than in Spain because men esteem it more highly, though the nature of the wheat is the same in both places'.[11] Covarrubias' subjectivist conception was completed by another of his scholastic contemporaries Luis Saravia de la Calle, who was the first to demonstrate that prices determine costs, not *vice versa*. Saravia de la Calle also had the special merit of writing his main book in Spanish, not in Latin. Its title was *Instrucción de mercaderes* (in English, 'Instructions to merchants') and there we can read that 'those who measure the just price by the labour, costs and risk incurred by the person who deals in the merchandise are greatly in error. The just price is found not by counting the cost but by common estimation'.[12]

The subjectivist conception initiated by Covarrubias also allowed other Spanish scholastics to get a clear insight into the true nature of market prices and the impossibility of attaining an economic equilibrium. Thus, the Jesuit Cardinal Juan de Lugo, wondering what the price of equilibrium was, as early as 1643 reached the conclusion that equilibrium depended on such a large number of specific circumstances that only God was able to know it ('*Pretium iustum mathematicum licet soli Deo notum*').[13] Another Jesuit, Juan de Salas, referring to the possibilities of knowing the specific market information, reached the very Hayekian conclusion that it was so complex that '*quas exacte comprehendere et ponderare Dei est non hominum*' (in English, 'only God, not men, can understand it exactly').[14]

Furthermore, the Spanish scholastics were the first to introduce the dynamic concept of competition (in Latin *concurrentium*), understood as a process of rivalry among entrepreneurs. For instance, Jerónimo Castillo de Bovadilla (1547–) wrote that 'prices will go down as a result of abundance, rivalry (*emulación*) and competition (*concurrencia*) among the sellers'.[15]

This same idea is closely followed by Luis de Molina.[16] Covarrubias also anticipated many of the conclusions of Father Juan de Mariana in his empirical study on the history of the devaluation of the main coin of that time, the Castilian Maravedí. This study contained a compilation of a large number of statistics on the evolution of prices in the previous century and was published in Latin in his book *Veterum collatio numismatum* (in plain English, 'Compilation of old monies').[17] This book was highly praised in Italy by Davanzaty and Galiani and was also quoted by the founder of the Austrian School of Economics' Carl Menger in his *Principles of Economics.*[18]

We should also note how Father de Mariana, when explaining the effects of inflation, listed the basic elements of the quantitative theory of money, which had previously been explained in full detail by another notable scholastic, Martín Azpilcueta Navarro, also known as Dr Navarro, who was born in Navarra (north-east Spain, near France) the year after the discovery of America (1493). Azpilcueta lived 94 years and is specially famous for explaining for the first time, in 1556, the quantitative theory of money, in his book *Resolutory Commentary on Exchanges.* Observing the effects on Spanish prices of the massive inflow of precious metals coming from America, Azpilcueta declared that,

> as can be seen from experience, in France, where there is less money than in Spain, bread, wine, clothing, labor and work cost much less; and even in Spain, at the time when there was less money, the things which could be sold and the labor and work of men were given for much less than after the Indies were discovered and covered her with gold and silver. The cause of which is that money is worth more where and when it is lacking than where and when it is in abundance.[19]

Returning to Father Juan de Mariana, it is clear that his most important contribution was to see that inflation was a tax that 'taxes those who had money before and, as a consequence thereof, are forced to buy things more dearly'. Furthermore, Mariana argues that the effects of inflation cannot be solved by fixing maximum rates or prices, since experience shows that these have always been ineffective. In addition, given that inflation is a tax, according to his theory of tyranny, the people's consent would, in any event, be required but, even if such consent existed, it would always be a very damaging tax that disorganized economic life: 'this new levy or tax of the alloyed metal, which is illicit and bad if it is done without the agreement of the kingdom and, if it is done therewith, I take it as erroneous and harmful in many ways'.

How could resorting to the comfortable expedient of inflation be avoided? By balancing the budget, for which purpose Mariana basically proposed spending less on the royal family because 'a moderate amount, spent with order, glitters more and represents greater majesty than a superfluous amount without order'.

Second, he proposed that 'the king should reduce his favours'; in other words, he should not reward the real or supposed services of his vassals so generously:

> there is no kingdom in the world with so many prizes, commissions, pensions, benefits and posts; if they were well distributed in an orderly fashion, less would need to be taken from the public treasury or from other taxes from which money contributions can be got.

As we can see, the lack of control over public spending and the purchase of political support with subsidies date from a very long time ago. Mariana also proposed that 'the king should avoid and excuse unnecessary undertakings and wars, cut off the cancerous limbs that cannot be healed'.

In short, as we can see, he set forth a whole programme for a reduction in public spending and keeping the budget balanced which would, even today, serve as a model.

It is obvious that, if Father Juan de Mariana had known the economic mechanisms that lead to the credit expansion process generated by banks and the effects of this process, he would have condemned as robbery not only the government debasement of coins, but also the even more disturbing credit inflation created by banks. However, other Spanish scholastics were able to analyse the credit expansion of banks. Thus, Luis Saravia de la Calle was very critical of fractional-reserve banking. He maintained that receiving interest was incompatible with the nature of a demand deposit and that, in any case, a fee should be paid to the banker for keeping the money under his custody. A similar conclusion is reached by the more famous Martín Azpilcueta Navarro.[20]

The Jesuit Luis de Molina was sympathetic to fractional reserve-banking and confused the nature of two different contracts, loans and deposits, which Azpilcueta and Saravia de la Calle had clearly differentiated from each other previously. A more relevant aspect is that Molina was the first theorist to discover, in 1597, therefore much earlier than Pennington in 1826, that bank deposits are part of the monetary supply. He even proposed the name 'written money' (*chirographis pecuniarium* in Latin) to refer to the written documents that were accepted in trade as bank money.[21] Our scholastics included, therefore, two incipient schools, a kind of 'Currency School', formed by Saravia de la Calle, Azpilcueta Navarro and Tomás de Mercado, who were very distrustful of banking activities, for which they implicitly demanded a 100 per cent reserve should be held; and a kind of 'Banking School' headed by the Jesuits Luis de Molina and Juan de Lugo, who were much more tolerant of fractional-reserve banking.[22] Both groups were to a certain extent the forerunners of some of the theoretical developments which were to arise three centuries later in England, as a result of the debate between the Currency School and the Banking School.

Murray Rothbard stresses how another important contribution of the Spanish scholastics, especially of Azpilcueta, was to revive the vital concept of time preference, originally developed by one of the most brilliant pupils of Saint Thomas Aquinas, Giles Lessines, who, as early as 1285, wrote that

> future goods are not valued so highly as the same goods available at an immediate moment of time, nor do they allow their owners to achieve the same utility. For this reason, it must be considered that they have a more reduced value in accordance with justice.[23]

Father Juan de Mariana wrote another important book, *Discurso de las enfermedades de la Compañía* ('A discourse on the sicknesses of the Jesuit order'), which was published posthumously. In this book Mariana criticized the military hierarchy established in the Jesuit order, but also developed the pure Austrian insight that it is impossible to endow state commands with a coordinating content due to lack of information. In the words of Mariana himself,

> power and command is mad. … Rome is far away, the general does not know the people or the facts, at least, with all the circumstances that surround them, on which success depends … it is unavoidable that many serious errors will be committed and the people are displeased thereby and despise such a blind government … it is a great mistake for the blind to wish to guide the sighted.

Mariana concludes that, when there are many laws, 'as not all of them may be kept or known, respect for all of them is lost'.[24]

In summary, Father Juan de Mariana and the Spanish scholastics were capable of developing the essential elements of what would later be the theoretical basis of the Austrian School of Economics, specifically the following: first, the subjective theory of value (Diego de Covarrubias y Leyva); second, the proper relationship between prices and costs (Luis Saravia de la Calle); third, the dynamic nature of the market and the impossibility of the model of equilibrium (Juan de Lugo and Juan de Salas); fourth, the dynamic concept of competition understood as a process of rivalry among sellers (Castillo de Bovadilla and Luis de Molina); fifth, the rediscovery of the time preference principle (Azpilcueta Navarro); sixth, the distorting influence of the inflationary growth of money on prices (Juan de Mariana, Diego de Covarrubias and Azpilcueta Navarro); seventh, the negative economic effects of fractional-reserve banking (Luis Saravia de la Calle y Azpilcueta Navarro); eighth, that bank deposits form part of the monetary supply (Luis de Molina and Juan de Lugo); ninth, the impossibility of organizing society by coercive commands due to lack of information (Juan de Mariana); and, tenth, the libertarian tradition that any unjustified intervention on the part of the state violates natural law (Juan de Mariana).

In order to understand the influence of the Spanish scholastics on the later development of the Austrian School of Economics, we should remember that in the sixteenth century the Emperor Charles V, who was the king of Spain, sent his brother Ferdinand I to be king of Austria. 'Austria' means, etymologically, 'eastern part of the Empire' and the Empire in those days comprised almost all continental Europe, with the sole exception of France, which remained an isolated island surrounded by Spanish forces. So it is easy to understand the origin of the intellectual influence of the Spanish scholastics on the Austrian School. It is not a pure coincidence or a mere whim of history, but originated from the intimate historical, political and cultural relations which existed between Spain and Austria from the sixteenth century onwards and were to continue for several centuries. In addition, Italy also played an important role in these relations, acting as an authentic cultural, economic and financial bridge over which the relations between the two furthest points of the Empire in Europe (Spain and Vienna) flowed. So there are very important arguments to defend the thesis that, at least at its roots, the Austrian School is truly a Spanish school.

Indeed, we could say that the greatest merit of Carl Menger was to rediscover and take up this continental Catholic tradition of Spanish scholastic thought that was almost forgotten and cut short as a consequence of the black legend against Spain and the very negative influence on the history of economic thought of Adam Smith and his followers of the British Classical School.[25]

Fortunately, and despite the overwhelming intellectual imperialism of the British Classical School of Economics, the continental tradition was never totally forgotten. Several economists like Cantillon, Turgot and Say kept the torch of subjectivism burning. Even in Spain, in the years of decadence in the eighteenth and nineteenth centuries, the old scholastic tradition survived in spite of the inferiority complex toward the British intellectual world that was so typical of those years. Proof of this is how another Spanish Catholic writer solved the 'paradox of value' and clearly set forth the theory of marginal utility twenty-seven years earlier than Carl Menger. This was Jaime Balmes, who was born in Catalonia in 1810 and died in 1848. During his short life, he became the most important Spanish Thomistic philosopher of his time. A few years before his death, on 7 September 1844, he published an article entitled 'True idea of value or thoughts on the origin, nature and variety of prices', in which he solves the paradox of value and clearly sets forth the idea of marginal utility. Balmes wondered, 'Why is a precious stone worth more than a piece of bread?', and he answered:

> It is not difficult to explain. Being the value of a thing its utility … if the number of units of this means increases, decreases the need of anyone of them in particular; because being possible to choose among many units, none of them is indispensable. For this reason there is a necessary relation between the increase or decrease in value, and the shortage or abundance of a thing.[26]

In this way Balmes was able to close the circle of the continental tradition, which was ready to be taken up, completed and enhanced a few years later by Carl Menger and his followers from the Austrian School of Economics.